



**CONGRESSIONAL BUDGET OFFICE  
INTERGOVERNMENTAL MANDATES STATEMENT**

May 9, 2001

**S. 277  
Fair Minimum Wage Act of 2001**

*As introduced on February 7, 2001*

**SUMMARY**

S. 277 would amend the Fair Labor Standards Act of 1938 (FLSA) to increase the federal minimum wage rate in three steps from \$5.15 per hour to \$6.65 per hour beginning on January 1, 2003. It also would apply the minimum wage provisions of the FLSA to the Commonwealth of the Northern Mariana Islands (CNMI).

**INTERGOVERNMENTAL MANDATES CONTAINED IN BILL**

S. 277 would impose intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would require state, local, and tribal governments to pay a higher minimum wage to employees than they are required to pay under current law. The bill also would preempt the minimum wage laws of the CNMI. Such a preemption is considered a mandate under UMRA.

**ESTIMATED DIRECT COSTS OF MANDATES TO STATE, LOCAL, AND TRIBAL GOVERNMENTS**

**Is the Statutory Threshold (\$56 million in 2001, adjusted annually for inflation) Exceeded?**

Yes, beginning in federal fiscal year 2002.

## Total Direct Costs of Mandates

The following table summarizes the estimated costs to state, local, and tribal governments that would result from enacting S. 277.

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
Direct Costs to State, Local and Tribal Governments	250	460	470	410	370

These amounts include the estimated increase in wages and payroll taxes that state, local, and tribal governments would be required to pay to raise the wage rates of all employees who would otherwise have been paid between \$5.15 and the proposed rate. By comparison, according to the Bureau of the Census, the total payrolls of state, local, and tribal governments exceeded \$520 billion in 1999.

Based on information from the U.S. Department of Labor and the CNMI, CBO estimates that the cost to the Commonwealth of the Northern Mariana Islands of complying with the mandate to pay the federal minimum wage would not be significant because the number of public employees affected by the bill would be small. Furthermore, preempting the minimum wage laws of the CNMI (which is defined by UMRA as a state) would not result in additional costs because that government would not be required to undertake any new activities.

## BASIS OF ESTIMATE

S. 277 would increase the federal minimum wage from \$5.15 per hour to \$5.75 per hour beginning 30 days after the date of enactment, to \$6.25 per hour beginning on January 1, 2002, and to \$6.65 per hour beginning on January 1, 2003. In addition, it would apply the minimum wage provisions of the FLSA to the CNMI, with a transition period that would begin 30 days after the date of enactment. It would not change other sections of the FLSA that establish different rules for certain workers and employers, including the provision permitting employers to pay teenagers \$4.25 per hour during the first 90 days of employment. For the purpose of this estimate, CBO assumes that S. 277 would be enacted on September 1, 2001.

CBO estimated the total number of workers whose wages would be affected by the increase in the minimum wage rate in October 2001 and subsequent months, the wage rates these workers would receive in the absence of the enactment of the proposal, and the number of

hours for which they would be compensated. CBO estimates that fewer than 10 percent of the affected workers are employed by state, local, or tribal governments.

The estimate was made in two steps. First, CBO used data from the Current Population Survey to estimate how much it would have cost employers to comply with the mandate had they been required to do so in early 2001. Second, those estimates were used to project the costs to employers beginning in October 2001, taking into account the expected decline in the number of workers in the relevant wage range. More details on the estimate and limitations of the data and methods are provided in the private-sector mandate statement that accompanies this statement.

#### **APPROPRIATION OR OTHER FEDERAL FINANCIAL ASSISTANCE PROVIDED IN THE BILL TO COVER MANDATE COSTS**

None.

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